

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 171 - HB 565

March 24, 2023

SUMMARY OF BILL: Prohibits a local governmental entity (LGE) from increasing its property tax rate by certain amounts, except by a referendum. Excludes the following from the proposed limitations: (1) taxes levied or pledged to pay or secure the payment of the principal and interest on bonds; (2) actions taken by the Comptroller of the Treasury (COT) to order the local government to adjust estimates; or (3) a local government's authority to change rates for utilities it owns or operates.

FISCAL IMPACT:

Forgone Local Revenue – Exceeds \$1,000,000/FY23-24 and Subsequent Years

Assumptions:

- The proposed legislation applies to counties, municipalities, metropolitan governments, and special school districts (SSDs) with the authority to levy a property tax.
- Local governmental entities would be prohibited from increasing the property tax rate by an amount that would increase the entity's property tax revenue:
 - More than inflation plus two percent (2%); or
 - More than inflation plus six percent (6%) over the preceding three tax years.
- The proposed language requires property taxes levied on new construction in the previous tax year to be excluded when calculating the entity's current property tax revenue.
- Based on information provided by the COT:
 - The following number of LGEs increased their tax rate above the proposed legislation's yearly limits and would have been required to have a referendum:
 - In 2020: 7 counties, 22 municipalities, and 1 SSD;
 - In 2021: 3 counties, 37 municipalities, and 6 SSDs; and
 - In 2022: 6 counties, 24 municipalities, and 1 SSD;
 - From 2020-2022, eight counties, 39 municipalities, and 3 SSDs increased their property tax rate above the proposed limit allowed within a three-year period and would have been required to have a referendum.
- It can be reasonably assumed that upon passage of the proposed legislation, LGEs would ensure that any referendum would be held in conjunction with a regularly scheduled election.
- The proposed language may result in LGEs increasing their property tax rates in amounts lower than they would have otherwise to avoid having a referendum.

- While the precise number of LGEs that will opt to increase their property tax rates at a lower rate is unknown, it is estimated to result in forgone property tax revenue for such local government. The precise amount of forgone property tax revenue will vary for each local government but is reasonably estimated to exceed \$1,000,000 per year statewide.
- The proposed limitations currently do not apply to: (1) taxes levied or pledged to pay the principal and interest on bonds, (2) certain actions taken by the COT, or (3) a local government's authority to change certain utility rates; therefore, excluding the above from the limitations of the proposed legislation will not result in any significant fiscal impact to state or local government.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

/mp